

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

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| IN RE:                                 | ) |                    |
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| MIDAMERICAN ENERGY COMPANY             | ) | DOCKET NO. 01-0696 |
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| Proposed general increase in gas rates | ) |                    |

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REPLY BRIEF ON EXCEPTIONS  
  
OF  
  
MIDAMERICAN ENERGY COMPANY

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## TABLE OF CONTENTS

|      |  |   |
|------|--|---|
| I.   | UNCOLLECTIBLE EXPENSE (VI.C.1 OF PROPOSED ORDER) .....   | 1 |
| II.  | CLASS-BY-CLASS PEAKS – 85 HDD VS. 90 HDD<br>(VIII.A. OF PROPOSED ORDER).....                   | 2 |
| III. | WEIGHTINGS FOR SERVICES, METERS, AND REGULATORS<br>(VIII.B. OF PROPOSED ORDER).....            | 3 |
| IV.  | ALLOCATION OF COSTS ASSOCIATED WITH GAS DISTRIBUTION<br>MAINS (VIII.D. OF PROPOSED ORDER)..... | 4 |
| V.   | RATE 60 RATE DESIGN (IX.A. OF PROPOSED ORDER).....   | 5 |
| A.   | Reply to CUB.....  | 5 |
| B.   | Reply to Staff .....   | 7 |
| VI.  | RATE 85 CUSTOMER CHARGE (IX.C. of Proposed Order).....   | 8 |

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COMES NOW, MidAmerican Energy Company (MidAmerican) and submits its Reply Brief on Exceptions to the Administrative Law Judge's Proposed Order (Proposed Order) issued on July 19, 2002.

MidAmerican replies to the following issues raised by the Staff of the Illinois Commerce Commission (Staff) and the Citizens Utility Board (CUB) concerning the conclusions of the Proposed Order in their initial Briefs on Exception: VI.C.1. Uncollectible expense; VIII.A. Class-by-class peaks – 85 HDD vs. 90 HDD; VIII.B. Weightings for services, meters, and regulators; VIII.D. Allocation of costs associated with gas distribution mains; IX.A. Rate 60 rate design; and IX.C. Rate 85 customer charge.

I. UNCOLLECTIBLE EXPENSE (VI.C.1 OF PROPOSED ORDER)

MidAmerican originally included in its case a pro forma adjustment to reflect higher uncollectible accounts expense encountered in 2001. This adjustment resulted in total uncollectible expenses of approximately \$496,000. Staff proposed a five-year weighted-average uncollectible expense factor, calculating the actual amount of written-off accounts. This

calculation resulted in a total of \$364,000, a downward adjustment of \$132,000 from the amount originally proposed by MidAmerican. MidAmerican agreed to that adjustment. While averaging an expense increase amount over a rather long time period, it gave some recognition to the increased expense actually incurred. CUB argues in its Brief on Exceptions that the Commission should totally ignore the increased uncollectible expense during the winter of 2000-2001. It argues, without having introduced any evidence to support its conclusion, that this level of expense is unlikely to happen again. There is also no evidence that MidAmerican behaved irresponsibly in incurring this expense during a difficult time for both it and its ratepayers. MidAmerican agrees with the Proposed Order that Staff's compromise amount is a more reasonable solution than that of CUB.

## II. CLASS-BY-CLASS PEAKS – 85 HDD VS. 90 HDD (VIII.A. OF PROPOSED ORDER)

Staff's speculation in its Brief on Exceptions about what the costs might be to design an 85 HDD-capable system is meritless. There is no evidence in the record to support costs for that design, nor did Staff ever inquire what such costs may be. Instead, Staff supported its choice of 85 HDD as the more reasonable allocator on the basis that 85 HDD weather had been experienced. Now stating that MidAmerican had not entered evidence to counter an argument that had not been made on the record demonstrates an apparent lack of faith in the position it had espoused throughout the case. Further, MidAmerican cannot believe that Staff is actually advocating a design that would only meet, but not exceed, an already-experienced peak demand. MidAmerican continues to support the conclusion in the Proposed Order for the reasons stated therein.

### III. WEIGHTINGS FOR SERVICES, METERS, AND REGULATORS (VIII.B. OF PROPOSED ORDER)

Staff appears troubled that typical installed Company-specific costs were accepted as a reasonable proxy for historical costs in developing the weightings for services, meters and regulators, speculating that such acceptance will encourage utilities to use “forward-biased, results-based data.” [Staff BOE at 4]. If “forward-biased” refers to the use of current data in place of historical data, MidAmerican witness Rea noted that MidAmerican would consider Company-specific historical costs the most optimal data for this purpose. [MEC Ex. 19.0 at 3]. Unfortunately, MidAmerican does not have that data and must use a reasonable proxy. [Id.]

In fact, acceptance of these costs as proxy data for this purpose would merely demonstrate to all parties that alternatives, when the most optimal data is unavailable, must be as closely and logically related to that optimal data as possible. The charge that the Commission would be encouraging utilities to use “results-based” data is even more puzzling. Again, this charge would make sense only if MidAmerican had the optimal data but simply chose not to use it. As the evidence in the case refutes that charge (see, e.g., MEC Ex. 19.0 at 3-4), and MidAmerican has provided a logical basis for the use of typical installed costs as an objectively-based proxy, the argument is disingenuous.

However, upon positing that the Company’s use of Company-specific installed costs as an allocator is not a perfect choice, Staff then inexplicably urges that the Commission substitute the results of an allocation from a prior rate case where the allocation was done with weightings based, not on objective data, but on the expert witness’ general experience. [MEC Ex. 15.0 at 25]. Given the paucity in this docket of information as to how the weightings championed by Staff were developed, it is difficult to understand Staff’s objection to MidAmerican’s well-

documented weightings—especially as there is nothing in this docket to determine whether the general experience in the prior docket had to do with historical or current numbers.

MidAmerican generally agrees with the conclusion in the Proposed Order on this issue. The question of excluding outliers should not trouble the Commission, however. When data appears questionable, experts often exclude that data for computational purposes, in order not to skew the result. For example, Staff witness Freetly developed a sample of gas distribution companies comparable in risk to MidAmerican for use with her DCF and risk premium models. She focused on the gas utilities most comparable to MidAmerican (Proposed Order at 20-21). For purposes of her DCF analysis, she removed the 19.40% DCF estimate for NUI Corp., stating “This unreasonably high 19.40% estimate biased the DCF estimate for the sample upward.” [Staff Ex. 4.0 at 16-17]. In other words, she excluded this outlier gas utility for purposes of her analysis. Therefore, MidAmerican suggests the conclusion be amended:

The data used by the Company to develop its cost of service study for this proceeding were company specific, which the Commission finds to be more appropriate. The Commission must choose between weightings based on the industry as a whole and weightings based on company specific data. The Commission agrees with Staff that the Company’s proposal is imperfect ~~and we are troubled by the fact that MEC excluded outliers in developing the weighting factors and the unclear relationship of the typical installments to the actual.~~ Nonetheless, the Commission concludes that weighting factors based on Company specific data represent a more appropriate proxy than those proposed by Staff which are, essentially, unsupported. We believe that the use of Company specific data provides a more accurate reflection of how costs were incurred and, therefore, should be used for the allocation.

#### IV. ALLOCATION OF COSTS ASSOCIATED WITH GAS DISTRIBUTION MAINS (VIII.D. OF PROPOSED ORDER)

In its Brief on Exceptions, CUB recommends its approach as correcting a “substantial flaw” in the average and peak methodology, a method that the Proposed Order correctly notes the Commission had previously adopted. MidAmerican does not agree that the CUB approach is

a correction. CUB also characterizes MidAmerican's explanation of the CUB approach as a red herring argument about minimum system. To the contrary, none of the parties in the case claimed that CUB's approach was a minimum system approach. The parties did claim, and the Proposed Order correctly notes, that because the CUB proposal is very similar to a minimum system approach, it should be rejected. Simply because CUB's method leaves out one (and only one) aspect of a minimum system calculation does not mean that it is not similar to that approach. The Proposed Order's conclusions in this regard are appropriate.

V. RATE 60 RATE DESIGN (IX.A. OF PROPOSED ORDER)

A. Reply to CUB

CUB witness Ross suggests that customer charges should include only those costs that vary with the number of customers. [CUB Ex. 1.0 at 7]. He suggests that to correctly calculate a customer charge it is appropriate to remove costs that do not vary with the number of customers from the functional revenue requirements of customer cost categories in the COSS. [CUB Ex. 1. at 8].

CUB would strip the great majority of costs for general plant, intangible plant and administrative and general expenses, from any allocation to the customer charge because such costs do not vary with the number of customers. The fallacy of that argument is that if one treats the volumetric charge in a manner that is logically similar to the customer charge, one must also exclude the administrative and general costs from the volumetric charge since they are not volumetric related. This simple extension of CUB's logic underscores the absurd result inherent in its argument.

CUB's further reference to the length of service lines in MidAmerican's service territory [CUB BOE at 4] is also totally lacking a factual basis in the record. CUB's attempt to bolster its

case in this fashion actually underscores its weakness as, apparently, CUB did not believe an argument based solely on record evidence would be sufficiently persuasive. If that is the case, MidAmerican agrees.

In contrast, the Proposed Order has adopted a reasonable solution to apportioning those costs for which causation is difficult to ascertain by charging such costs to a particular function or service on the same basis as the direct costs for the service. The Proposed Order notes that this approach provides a better matching of total costs incurred for each given function. MidAmerican supports this conclusion. CUB's illogical approach is appropriately dismissed by the Proposed Order.

In discussing a claimed disparity in approach to customer charges for Rate 60 and Rate 70 customers, CUB's Brief on Exceptions mischaracterizes both MidAmerican's testimony and MidAmerican's argument in briefs. Nowhere did MidAmerican discuss service line sizes in regard to this issue. MidAmerican did note that low-use Rate 70 customers have less complex and less expensive connection costs than high-use customers. [MEC Ex. 20.0 at 5]. If CUB believes those costs consist solely of service lines, MidAmerican suggests CUB do a further examination of its service territory. On page 5 of its Brief on Exceptions, CUB correctly noted MidAmerican witness Schaefer's sworn testimony included the statement that MidAmerican's Rate 60 customers have rather minimal metering and regulator requirements as they are residential customers. [MEC Ex. 20.0 at 5]. However, CUB's argument that sworn testimony is not evidence is specious. Commonwealth Edison Company v. Illinois Commerce Commission, 751 N.E.2d 196, 201-202 (2d Dist. 2001) (See also 83 Ill. Admin. Code Section 200.610). The correct conclusion is that evidence of similar characteristics for equipment included in the direct costs in the customer charge for Rate 60 customers is uncontroverted in the record. Similarly,



uncontroverted is the evidence also contained in the sworn testimony of MidAmerican witness Schaefer that there is a significant difference in the costs for the equipment for low-use Rate 70 customers and that for high-use Rate 70 customers. [MEC Ex. 20.0 at 5]. This principled distinction leads to the reasonable basis for a rate design adjustment to the customer charge for Rate 70 customers. That adjustment helps to forestall the possibility that low-use Rate 70 customers would not only be “paying for” equipment necessary to connect that size customer to the system but also partially subsidizing the more extensive equipment for larger Rate 70 customers. Because the equipment necessary for Rate 60 customers is similar within the class, no adjustment is necessary.

Finally, CUB’s argument that the proposed Rate 70 customer charge recovers less than MidAmerican’s cost of service allocation [CUB BOE at 4-5] has been fully addressed in MidAmerican’s testimony. Furthermore, both the Rate 60 and Rate 70 customer charges provided in the Proposed Order are set at levels below MidAmerican’s proposed cost of service. The policy of setting customer charges below cost of service to accommodate differences in usage between customers within the same class therefore remains intact. Simply because the rationale is specifically stated for Rate 70 and not Rate 60 does not make the results inconsistent and discriminatory, as CUB claims.

B. Reply to Staff

As MidAmerican did in its Brief on Exceptions, Staff points out the discrepancy between Proposed Order’s cost of service conclusions and the rationale Staff used to develop its proposed \$10.50 Rate 60 customer charge. Staff states that if the Proposed Order’s cost of service conclusions remain unchanged in the final order, then Staff’s methodology for developing a customer charge would no longer result in a \$10.50 value. Staff recommends an \$11.20 customer

charge if the final order adopts the Proposed Order's cost of service conclusion. [Staff BOE at 8.] While MidAmerican had argued that the final order should adopt MidAmerican's cost of service position in its entirety, MidAmerican would not object to an \$11.20 Rate 60 customer charge if the Proposed Order's cost of service conclusions do not change. In addition to the amendments proposed by Staff, such a change in the final order should be accompanied by the amendment to the discussion of Staff's position on page 35 of the Proposed Order as suggested by MidAmerican in its Brief on Exceptions. [MidAmerican BOE at 11-12.]

VI. RATE 85 CUSTOMER CHARGE (IX.C. of Proposed Order)

Staff proposes a change to the Proposed Order's language governing the Rate 85 customer charge. [Staff BOE at 9.] Staff's language would have the same result as the amendment proposed by MidAmerican in its Brief on Exceptions.

WHEREFORE, MidAmerican respectfully requests the Proposed Order be revised in accordance with the arguments and revisions discussed herein.

Respectfully submitted,

MIDAMERICAN ENERGY COMPANY

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